



AN ANALYSIS OF THE ROLE OF STATE BANK CREDIT IN DEVELOPMENT OF AGRICULTURAL AND INDUSTRIAL SECTORS WITH SPECIAL REFERENCE OF BIHAR

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ABSTRACT

"The State Bank of India was formed on 1 July, 1955, with the passing of the State Bank of India Act, 1955, by taking over the assets and liabilities of the Imperial Bank of India. The Imperial Bank of India was established in 1921 through the amalgamation of three Presidency Banks of Madras, Bombay and Bengal. It was the biggest bank between 1921 and 1935. It remained a special bank with powers and privileges that were not enjoyed by the other commercial banks in the country. The Imperial Bank is concerned it performed both the functions of commercial banking and central banking in the country. The establishment of the Reserve Bank of India in 1935, brought changes in the status and working of the Imperial Bank. It ceased to function as the government banker. The ban on certain commercial banking functions on it was removed. It was appointed as the agent of the Reserve Bank of India and authorized to transact government banking business at places where the Reserve Bank had no office of its own. Beside this, the Imperial Bank was permitted on behalf of the government to pay, receive, collect and remit money on behalf of the Reserve Bank. So, it kept a special position in the banking sector. There was a clamour for nationalisation of the Imperial Bank for better services to the nation. As a result of this, in 1948, the government accepted the policy of nationalisation of the Imperial Bank. However it was postponed indefinitely in 1949. The All India Rural Credit Survey Committee recommended the creation of a State Bank of India by amalgamating certain State owned banks with Imperial Bank. Accordingly, the State Bank of India Act was passed on May 8, 1955 and the State Bank of India came into existence on 1st July, 1955 in the country."

Objectives:

The main objective of establishing State Bank of India is,

- (1) To set up a strong State – partnered Commercial banking Institution which consists of effective machinery composed of a large network of branches all over the country.
- (2) The main objectives of the State Bank of India are to open new branches in the rural and urban areas of the country,
- (3) To act on broad economic policies per sued by the Government,
- (4) To promote the agricultural finance and to remove the defects in the present system of agricultural finance,
- (5) To help the Reserve Bank in its credit policies and to check any monetary Disequilibrium that is likely to develop in the money market owing,
- (6) To the development activities and the setting up of a strong, state partnered commercial banking institutions with an effective machinery, etc.

Summary:

The State Bank of India is basically a commercial bank. The main function of State bank of India is traditional banking along with modern banking. The main functions of State Bank of India are to accept the deposits of the people, branch expansion, to promote banking habit in the rural areas and to cater for their credit needs, to strengthen the banking system by action as a benevolent and helping elder brother to the commercial banks in the country. To finance small scale industries. Bank has been making special efforts to meet the credit needs of small scale industries, to finance cooperative institutions in the country, to provide finance facilities to the warehousing, to subscribe the debentures of land mortgage bank, to conduct foreign exchange operations, to run Research Development, to guide subsidiary banks, etc.

The State Bank of India is biggest commercial bank in India which has been established on July 1, 1955 under the State bank of India Act 1955 by taking over the entire assets and liabilities of the Imperial Bank of India. State Bank of India has been play assigned an important role in the economic development of the country. The activities of the state bank are in conformity with the broad economic policies per sued by the Government. It is expected to have an effect on the activities of other commercial banks also so as the state bank command over third of the entire deposits of the commercial banking systems as a whole. The bank been established is to promote the agricultural finance and to remedy the defects in the present system of agricultural finance. The State Bank also aims to help the Reserve Bank of India in the execution of its credit policies and to check any monetary disequilibrium that is likely to develop in the money market owing to the development activities. The State Bank of India plays an important role in promoting small scale industries in the country. In providing finance to the small scale industries, it gives importance to the capacity of industry and integrity of the small man. The bank also prepares various schemes for financing small business covering the entire spectrum of retail trade as also to individuals in special-interest professions where the value of the movable equipment, present or future.

Bank is actively engaged with jobs programme sponsored by the government for the educated unemployed, state Bank plays a vital role in the development of agriculture in the country. It grants direct advances to farmers for all agricultural operations.

The State bank of India Act was passed on May 8, 1955 and the State Bank came into existence on July 1, 1955. It was established by the nationalisation of the Imperial Bank of India and later on in 1959 certain major state associated banks, Bank of Jaipur, Bank of Rajasthan, Bank of Mysore, the Hyderabad State Bank and the Travancore Bank were made its subsidiaries. The State Bank of India is a company set up under State Bank of India Act, 1955. It is headed by a Board of directors having its central office at Bombay. It has a fairly decentralised administrative structure. The branches of State Bank of India are scattered throughout the country. Management of the Bank vests in the central board of directors. Local boards are located at Mumbai, Kolkata, Chennai and New Delhi. It had an authorised share capital of Rs.20 crores and an issued share capital of Rs. 5.625 crores in the beginning allotted to the Reserve Bank if India. Through an amendment of 1986, the authorised share capital of the State Bank of India has been raised to Rs. 200 crores and paid up capital Rs. 150 crores of which 98 percent of the share are help by the Reserve Bank of India and two percent by the public. The main functions of State Bank of India are to accept deposits of the people in different accounts such as term-deposits, perennial pension plan, reinvestment plan, cash certificates, annuity deposits, super savings package, State bank Education Plan and recurring deposits, etc. the aggregate deposits of S.B.I. as on 31.1.1993 was Rs. 234.17 crores. It is to promote banking habits in the rural areas and to cater for their credit needs. It has also to strengthen the banking system by action as a benevolent and helping elder brother to the commercial banks in the country. It is to finance small scale industries as well as to finance co-operative institutions in the country. It also provides finance facilities to the ware housings. Besides these, it also performs the works of foreign exchange running of research department, looking after the management of subsidiary banks, etc. the State bank of India has been doing the work on behalf of the Reserve Bank of India also. So it has occupied an important place in the government workings. Thus the State Bank does all the entrusted works of Reserve Bank. Now Reserve Bank of India is decentralising its works from the State Bank of India. Other Banks like the Punjab National Bank, united Commercial Bank, etc. are also doing the work as an agent of the Reserve bank of India. At last, it may be said that State bank of India in the largest commercial bank in the country. It does all the assigned works of the Reserve bank of India from deposits to credit.

Causes:

One of the important needs of agricultural productivity is finance. Financial needs of agriculture are linked to production process which includes production, sale of output, and improvement of land and development of agriculture. The financial needs of agriculturist enable us to visualize correctly the problem of agricultural finance. It makes available finances to agriculture in following ways – Finances are important various inputs and needed for production like seeds, fertilizers, agricultural equipments, etc. so agriculturist needs finances. A part of the credit, which is used for consumption, is also related to production. These loans are repaid after the output is marketed. The finance needed for the purpose may in fact is used partly for the wage payments to farmers family lab our used for production proposes, thus there is an economic rationale for loans taken for such con-

sumption. Finances are also needed for unproductive purposes. They do not help production in any way. It is pertinent to note that it is not easy to arrange for repayment of such loans, if they are not large and bear heavy interest rates. Indian farmers for centuries have been growing under the deadweight of this type of indebtedness. Finance may be in different out forms like short, medium and long term. So far short term finance is concerned it is usually for a period ranging up to 15 months. In the case of medium term loans, it covers a period extending from six months to five years. These loans are utilized for activities which facilitate production over a larger period of time than in case of short term credit. Long term loans cover a period of more than five years and may be as long as 20 years or even more. These loans are utilized for such purposes which contribute to agricultural production for many years. Agricultural finance provides finances to agriculturists in different forms which help agriculturists not only to meet their expenditures of production but also to make available finances for their consumption.

Commercial banks participation in the financing of agriculture and allied activities has been a significant and revolutionary change in the Indian banking since the nationalization of major banks in 1969. The banks have penetrated in to the country side by opening their branches in rural and semi urban areas. They have adopted their lending policies and practices to suit the needs of the rural clients. State Bank of India is concerned, it may be said that State Bank of India like other commercial banks provides following procedures while granting direct finance and indirect finance respectively. In the case of direct finance to the agriculture, the State Bank of India follows the following guidelines – time for lending, availability of groundwater, completion of application forms, area approach, application form, appraisal form. How far the indirect finance to agriculture is concerned, state bank also provides agriculturist's finance through primary. Agricultural Credit Societies, Farmers Service Societies and large sized advance multipurpose societies. Besides this, indirect finance is also provided to the following.

- (a) Individuals or agencies engaged in the supply of production inputs (fertilizers, seeds specified) and other services to farmers.
- (b) Loans to electricity boards for financing well energisation programmes and
- (c) Co-operative marketing societies.
- (d) Loans to state tube well organizations, agro-industries corporations, custom service units.

Resources:

Industrial finance implies the provision of finance for the organisation of real resources for production. The finance is made available from the individuals and the institutions. There are various types of industrial finance. These are the main types of industrial finance: It is one of the important types of industrial finance and has become popular in present times in India. The buyers of these debentures are the creditors of the companies. They get a fixed rate of interest on the money invested in debentures. A major portion of fixed investments comes from different types of shares and non-cumulative preference shares. These shares bear the risk of different degrees and are tailored to suit the different investors. Now companies issue shares in small denominations of ten rupees which provide opportunities to the large number of people to participate in providing long-term finance. It is one of the types of industrial finance. Although in western countries, industrial units do not get finances through this source. Under this system people living in a particular region keep their money deposit with the companies or managing authorities for a period of six months, a year or so. This money is utilised by the company to meet requirements of the working capital. One of the important sources of industrial finance is commercial Banks. They provide funds for working capital of the industries. Loans are given against the guarantee of government securities and the stocks with the companies. They are advanced in the form of overdraft and cash credit. The managing agency system is of little importance at the present time. Under this system, an individual or a group of individuals provides finance at the initial stages of the establishment of industries and manage many activities of the company thus established. One managing agent controls more than one concern and uses funds of one concern to meet the needs of others under him. This system was very useful at that time when there was shortage of industrial finance and complete lack of financial institutions and capital market had not come into existence. Institutional finance is one of the types of Industrial Finance. Institutional Finance is meant to meet the long-term credit needs of industry particularly for those places where capital market is under-developed and commercial banks are reluctant in fulfilling the credit needs of industry. In other words, these institutions cater the needs of large and small industries.

Conclusions:

The State Bank of India has been the most single source of institutional finance to small scale industries in the country. In tune with the priorities laid down by the Reserve Bank of India, the approach of the State Bank in particular in the field of small-scale industries is selective and units producing goods for export, mass consumption goods, capital goods and inputs for the core sector and those situated in backward areas are given preferential treatment. The Bank's policy also aims at stimulating investment in these selected industries by providing increasing quantum of term loans. The approach towards the larger among the small-scale units is one of the emphasis on a greater degree of financial discipline, improvement in

operational efficiency and strengthening of managerial competence. The Entrepreneur Scheme introduced by the State Bank in 1967 deserves special mention in this connection. The Bank has also introduced various schemes for financing small business covering the entire spectrum of retail trade and also individuals in specialised professions where the value of movable equipment, present or future does not exceed Rs. 1 lakh. The bank is also actively associated with the half-a-million jobs programme sponsored by the Government for the educated unemployed.

Suggestion:

The entire study is aimed to analyse the financing of Agricultural and Industrial sectors by State Bank of India with Special Reference to Bihar. The study contains five chapters.

Chapter one, deals with evolution of State Bank of India in Bihar.

Chapter two, analyses organisational set up of the State Bank of India

Chapter three, deals with financing of the Agricultural segment.

Chapter four, is devoted to Financing of the Industrial segment.

Chapter five is the conclusion in which suggestions have been presented.

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